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SUBJECT: BANKING IN FALLUJAH

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[¶1.](#) (U) This is a joint EPRT Fallujah/Embassy Baghdad reporting cable.

[¶2.](#) (SBU) Summary: As life in Fallujah has returned to a semblance of normalcy, its banking sector -- both private and public -- has rapidly developed to meet a growing economy's demand for financial services. Three state-owned banks, Rafidain, Rasheed, and the Agricultural Bank, and the two privately-owned Bank of Baghdad and Al Warkaa Bank are open for business. The Al Warkaa Bank has undergone rapid growth in Fallujah since opening its first branch there in October 2007; it plans to have a total of six branches open in the Fallujah District by the end of 2008. Since its USD 800,000 recapitalization in June 2008, the Agricultural Bank has recommenced offering low-interest loans to farmers and local businessmen. Greater access to credit and financial services are enhancing Fallujah's economic development. End summary.

Banks in Fallujah

[¶3.](#) (SBU) Six banks have offices in the Fallujah District. Two are private - Al Warkaa and Bank of Baghdad. Three are wholly owned by the Government of Iraq: Rafidain, Rasheed and the Agricultural Bank. The sixth bank, which exists in name only in an abandoned office, is the quasi state-owned Iraqi Islamic Bank. (Note: Prior to regime change, the Iraqi Islamic Bank was 50 percent owned by the Baath party; this ownership has shifted to the Ministry of Finance. End note.)

Ag Bank: Almost Free Money for Farmers (And Officials)

[¶4.](#) (U) The Agricultural Bank opened its first Fallujah branch in 2001. It temporarily closed after 2003 and reopened its doors in September 2007. According to its management, the Agricultural Bank plans to open offices in Karmah, Amiriyah-Ferris and Saqlawiyah.

[¶5.](#) (SBU) The Agricultural Bank's stated goal is to act as a policy bank subsidizing the agricultural sector. To this end, the Fallujah branch has cut its interest rates from 14 percent to two percent on many of its financial products intended to assist the agricultural economy. The two percent annual charge serves as an administration fee. (Note: With inflation running at 15.8 percent in April 2008, the Agricultural Bank's terms represent essentially free money. End note.) Farmers are arriving at the bank before it opens for financial assistance, according to bank management. The money to finance these loans arrived at the bank approximately 30 days ago and they have received many applications loans. However, the Agriculture Bank has yet to

issue any of these loans, though they expect to begin this process in the near future.

¶6. (SBU) In June, the bank received a capital infusion of IQD 1 billion (USD 800,000) from the Ministry of Finance. Prior to this recapitalization, it had lent IQD 225 million (USD 188,000) to roughly 135 farmers and 15 businessmen and IQD 50 million (USD 42,000) to approximately 50 government employees. During the four years of conflict from 2003 to 2007, delinquency rates peaked at 40 percent in early 2007 for farmers/businessmen. Over the past couple of months, late payments have declined to an estimated 25 percent based on discussions in June 2008 with Agricultural Bank senior management. Government employees continue to pay off loans in a timely manner.

¶7. (SBU) A committee of three people reviews loan applications for agricultural or business projects, and conducts a site visit if required. The committee usually includes a member from the Agricultural Bank, the Ministry of Agriculture and a surveyor. The branch manager has approval authority up to IQD 3 million (USD 2,400). Bank financing is collateralized with real estate and the bank will lend up to 80 percent of the project's value. Bank officials say that 60 percent of its loans, by value, support the summer and winter planting seasons.

- Winter and summer crops are financed at two percent per annum for amounts up to IQD 3 million (USD 2,500) for a period of six to twelve months.

- Livestock and poultry, including supporting-infrastructure,

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are financed at two percent per annum for a period up to four years.

- Fruit orchards, including supporting-infrastructure, are financed at two percent per annum for a period up to five years.

- Fish farms, and supporting-infrastructure, are financed at two percent per annum for up to two years.

¶8. (SBU) The Agriculture Bank also offers 2 percent loans up to USD 17,000 for 25 calves; up to USD 47,000 for 500 sheep; up to USD 12,500 for chicken farms; up to USD 8,400 for refrigerated green houses; and up to USD 4,200 on other green houses.

Fallujah's Al Warkaa Bank: Making Its Move

¶9. (SBU) Prior to October 2007, there were no Al Warkaa branches in Fallujah District. It now has a total of five branches there; four out five of these branches have opened since the beginning of May 2008. There are two branches in Fallujah city and one branch each in Karmah, Amiriyah-Ferris and Saqlawiyah. A third branch in Fallujah is scheduled to open in the next couple of months. (EPRT Note: Al Warkaa's branches compare extremely favorably to the USD 300,000 expenditure made by the USG, in the immediate post-kinetic phase, to refurbish a similar building to house the state-owned Rasheed Bank. End note.)

¶10. (SBU) The EPRT has worked closely with Al Warkaa in opening these branches, providing advice and facilitation on non-financial matters. Al Warkaa has been responsive to the EPRT's request to open branches in the small towns around Fallujah as well as expanding its presence in Fallujah city. According to Branch Manager Mohammed Faz'a Farhan, Al Warkaa Bank opened branches in the small towns of Karmah, Amiriyah-Ferris and Saqlawiyah "due to the security ring zone around Fallujah which has limited economic activities in the city."

¶11. (SBU) According to bank officials, a substantial portion of Al Warkaa's revenue stream is driven by electronic funds transfer (EFT) through letters of guarantee (domestic) and credit (foreign). This activity is historically the most important bank activity in Iraq since it supports the efficient allocation of capital to support commerce throughout the country, they said.

Embassy Comment:

¶12. (SBU) Cheap credit from government banks and new financial services from private banks will help resuscitate Anbar's economy. This good news will become better news when conditions allow the private banks to expand beyond transaction services and mobilize resources for investment. The GOI appears to be moving forward on providing finance to jump-start Anbar's post-kinetic economy. Now the GOI needs to push the structural reforms that let the private sector take the lead.

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